

RUSSELL COUNTY FISCAL COURT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

**JONES
&
RITCHIE, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

2024 Shadybrook Lane, Lexington, KY 40502 ♦ (859) 269-1949

**RUSSELL COUNTY
FISCAL COURT AUDIT**

For The Year Ended June 30, 2006

Jones & Ritchie, PSC has completed the audit of the Russell County Fiscal Court for the year ended June 30, 2006. We have issued unqualified opinions, based on our audit and the report of the other auditors, on the governmental activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Russell County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements applicable to Russell County's major federal program: Community Development Block Grant (CFDA 14.228.)

Financial Condition:

The County had net assets of \$5,155,081, which included \$693,300 of unrestricted net assets in its governmental activities as of June 30, 2006. The Fiscal Court's discretely presented component unit had net assets of \$125,552 as of December 31, 2005. The discretely presented component unit had net cash and cash equivalents of \$49,349. The Fiscal Court had total debt as of June 30, 2006 of \$181,160 with \$80,260 due within the next year. The discretely presented component unit had total debt as of December 31, 2005 of \$92,376 with \$13,872 due within the next year.

Deposits:

The deposits of the fiscal court and the discretely presented component unit were insured and collateralized by bank securities or bonds.

Report Comments:

- 2006 – 1 The County Budget For All Road Fund Expenditures.
- 2006 – 2 The County Budget For All Jail Fund Expenditures.

CONTENTS

	PAGE
Independent Auditor's Report	1 – 2
Russell County Officials	3
Management's Discussion and Analysis	4 – 11
Government-wide Financial Statements.....	12
Statement of Net Assets – Modified Cash Basis.....	13
Statement of Activities – Modified Cash Basis	14 – 15
Fund Financial Statements.....	16
Balance Sheet – Governmental Funds – Modified Cash Basis.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds – Modified Cash Basis	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Modified Cash Basis	19
Index for Notes to the Financial Statements.....	20
Notes to the Financial Statements.....	21 – 34
Required Supplementary Information	35
Budgetary Comparison Schedules – Major Funds – Modified Cash Basis	36 – 40
Notes to the Required Supplementary Information	41
Other Supplementary Information	42
Combining Balance Sheet – Non-major Governmental Funds – Modified Cash Basis.....	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds – Modified Cash Basis	44
Schedule of Finding and Questioned Costs	45 – 47
Schedule of Expenditures of Federal Awards	48 – 49
Notes to the Schedule of Expenditures of Federal Awards	50
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	51 – 53

Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance with OMB Circular A-133	54 – 56
Appendix A: Certification of Compliance – Local Government Economic Assistance Program.....	57 – 58

JONES

&

RITCHIE, PSC

CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 □ (859) 269-1949

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ronnie E. McFall, Former Russell County Judge/Executive
Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Russell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Russell County Tourist Commission, a discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based on the report of the other auditors. Those financial statements reflect 100% of the assets and revenues of the discretely presented component unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, Russell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Russell County Fiscal Court
(Continued)

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Russell County, Kentucky's basic financial statements. The accompanying supplementary information, which consists of combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2008, on our consideration of Russell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying Schedule of Findings and Questioned Costs, included herein, which discusses the following report comments:

- 2006 – 1 The County Budget For All Road Fund Expenditures.
- 2006 – 2 The County Budget For All Jail Fund Expenditures.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC
Certified Public Accountants

April 29, 2008

RUSSELL COUNTY OFFICIALS

June 30, 2006

Fiscal Court Members:

Ronnie E. McFall	County Judge/Executive
Mickey Garner	Magistrate
Garnett Hammond	Magistrate
Larry W. Holt	Magistrate
Ronald Johnson	Magistrate
Troy Meadows	Magistrate

Other Elected Officials:

Howard Kent Cooper	County Attorney
Darrell L. McQueary	Jailer
Lisha Popplewell	County Clerk
Larry L. Bennett	Sheriff
Tony Kerr	Circuit Court Clerk
Rodney G. Owens	Property Valuation Administrator
Larry D. Skaggs	Coroner

Appointed Personnel:

Barbara Wilson	County Treasurer
Glenna Helm	Finance Officer
Angie Bernard	Tax Administrator
Ronnie McGaha	Road Supervisor
Leslie Hart	Secretary

Note: List of officials who were in office as of June 30, 2006.

**Russell County
Management's Discussion and Analysis**

June 30, 2006

The financial management of Russell County, Kentucky, offers readers of Russell County's financial statements this narrative overview and analysis of the financial activities of Russell County for the fiscal year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on any significant financial issues and activities, to identify any significant financial issues and activities, and to identify any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmittal and the notes to the financial statements.

Financial Highlights

The Statement of Net Assets shows \$693,300 in current assets and \$4,642,941 in non-current assets. Current assets consist of cash and cash equivalents while non-current assets consist of capital assets (land, land improvements, vehicles, buildings, equipment, infrastructure, etc.), net of accumulated depreciation. Liabilities of the Fiscal Court are current liabilities due within one year of \$80,260 and non-current liabilities due in more than one year of \$100,900. Net assets are \$5,155,081. From year to year, changes in net assets are an indicator of the Fiscal Court's financial position.

The Statement of Activities shows general revenues of \$1,779,790 for fiscal year 2006. The majority of revenues were property tax assessments and occupational taxes.

The fund financial statements show the inflow and outflow of cash receipts and cash disbursements. The Statement of Revenues, Expenditures and Changes in Fund Balances shows that total revenues of \$4,410,786 were exceeded by total expenditures of \$4,457,604 for a net decrease in fund balance of \$46,818.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Russell County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source and program expenses by function.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Russell County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Russell County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of Russell County.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Overview of Financial Statements (continued)

Government-wide Financial Statements (continued)

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities. As a result, certain assets and their related revenues (such as amounts billed for services provided, but not collected), accounts payable (expenses for goods and services received but not paid), and compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Russell County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, roads, airport, debt services, capital projects and administration. The County has no business-type activities.

The government-wide financial statements include not only Russell County (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Russell County has two such entities: the Russell County Tourist Commission, which is described as a discretely presented component unit, and the Russell County Airport Board, which is described as a blended component unit.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Russell County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Russell County are *governmental funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, *governmental fund* financial statements focus on current inflows and current outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Russell County maintains (9) nine individual governmental funds. Information is presented separately for the major funds (General Fund, Road Fund, Jail Fund, Community Development Block Grant Fund, and Airport

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Overview of Financial Statements (continued)

Governmental Funds (Continued)

Fund) and is combined for the non-major funds (Tourism Fund, Local Government Economic Assistance Fund, Homeland Security Fund, and Grant Fund,) in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances.

Russell County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, the Road Fund, Jail Fund, and the Community Development Block Grant Fund to demonstrate compliance with their budgets.

Discretely Presented Component Units

Component units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component units operate similarly to private sector businesses. Russell County has only one discretely presented component unit: the Russell County Tourist Commission. This component unit's financial information is included on the government-wide financial statements (Statement of Net Assets and the Statement of Activities) in a separate column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the County as a Whole

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Financial Analysis of the County as a Whole (Continued)

Comparative Financial Statements

Table 1
Russell County's Net Assets
Governmental Activities

	<u>2005</u>	<u>2006</u>
Assets		
Current assets	\$ 740,118	\$ 693,300
Capital assets	3,510,325	4,642,941
Total assets	\$ 4,250,443	\$ 5,336,241
Liabilities		
Current liabilities	\$ 77,438	\$ 80,260
Long-term liabilities	180,774	100,900
Total liabilities	\$ 258,212	\$ 181,160
Net Assets		
Invested in capital assets, net of related debt	\$ 3,252,113	\$ 4,461,781
Restricted for grant projects	50,000	
Unrestricted	690,118	693,300
Total net assets	\$ 3,992,231	\$ 5,155,081

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Financial Analysis of the County as a Whole (Continued)

Comparative Financial Statements (Continued)

Table 2
Russell County's Statement of Activities
Governmental Activities

		2005		2006		Variance	Percent Change
Revenues:							
General	\$	1,624,661	\$	1,779,790	\$	155,129	9.5%
Charges for services		30,703		42,204		11,501	37.5%
Operating grants and contributions		2,055,403		2,588,792		533,389	26.0%
Total	\$	3,710,767	\$	4,410,786	\$	700,019	18.9%
Expenses:							
General government	\$	1,336,109	\$	1,826,421	\$	490,312	36.7%
Protection to persons and property		624,993		613,501		(11,492)	(1.8%)
General health and sanitation		140,462		77,106		(63,356)	(45.1%)
Social services		93,601		66,031		(27,570)	(29.5%)
Recreation and culture		121,242		136,676		15,434	12.7%
Roads		564,683		488,190		(76,493)	(13.6%)
Airport		29,465		29,101		(364)	(1.2%)
Debt services (interest)		11,680		10,910		(770)	(6.6%)
Total	\$	2,922,235	\$	3,247,936	\$	325,701	11.1%

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Financial Analysis of the County's Funds

As noted earlier, Russell County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds Overview. The focus of Russell County's governmental funds is to provide information on current inflows, current outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County has five major governmental funds as follows:

1. The **General Fund** is the chief operating fund of Russell County. As of June 30, 2006, unreserved fund balance of the General Fund was \$542,158 and the total fund balance was \$548,157. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 39.4% of total fund expenditures. The fund balance of Russell County's General Fund decreased by \$6,793 during the June 30, 2006 fiscal year.
2. The **Road Fund** accounts for the County's construction and maintenance of its roads and bridges. The Road Fund had a \$76,836 fund balance at June 30, 2006. The fund balance at the end of the previous year was \$128,252. The fiscal year 2006 expenditures for road projects were \$1,524,179.
3. The **Jail Fund** is used to account for the operation of the County's detention program. There was a fund balance at June 30, 2006 of \$8,820, which consisted of \$3,692 that was unreserved. This represents an increase in fund balance of \$6,706 over the previous fiscal year end. The Jail Fund received \$104,459 from intergovernmental sources, which accounts for 94.5% of the Jail Fund revenue.
4. The **Community Development Block Grant Fund** had a fund balance of \$1 at June 30, 2006. A total of \$555,917 was received and passed through to the Russell County Industrial Development Authority.
5. The **Airport Fund**, which coordinates the operation of the county airport, had a fund balance at June 30, 2006 of \$41,253.

The county has four non-major governmental funds: Tourism Fund, Local Government Economic Assistance Fund, Homeland Security Fund, and Grant Fund. Ending fund balance was \$18,233, which represented a decrease of \$4,196 from the prior year. Total revenues were \$191,761, total expenditures were \$189,726 and net transfers out were \$6,231.

General Fund Budgetary Highlights

The County's General Fund budget was amended during the fiscal year resulting in a total increase in budgeted expenditures of \$867,091. Budget amendments were made to various expenditures due to surplus cash carried forward and an increase in revenue. Actual revenues exceeded budgeted revenues, as amended, by \$128,185.

Capital Assets and Debt Administration

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Capital Assets. Russell County's investment in capital assets and infrastructure assets for its governmental activities as of June 30, 2006, was \$4,642,941 (net of accumulated depreciation). This investment in capital assets and infrastructure assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and infrastructure additions.

Major capital asset events during the 2006 fiscal year included the construction of infrastructure assets and the purchase of vehicles and computer equipment. The construction cost of all infrastructure assets was \$1,141,883 for the fiscal year.

Additional information on the County's capital assets can be found in Note 4 of this report.

Table 3
Russell County's Capital Assets, Net of Accumulated Depreciation
Governmental Activities

		<u>2005</u>		<u>2006</u>
Land	\$	497,500	\$	497,500
Land improvements		187,109		199,254
Buildings and improvements		1,062,476		1,033,521
Office furniture, machinery, and other equipment		340,804		467,769
Vehicles		172,841		147,692
Infrastructure		1,249,595		2,297,205
Total net capital assets	\$	<u>3,510,325</u>	\$	<u>4,642,941</u>

Debt Administration. At the end of the 2006 fiscal year, Russell County had total debt outstanding of \$181,160. Additional information on the County's debt can be found in Note 5 of this report.

Other Matters

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- The 2007 fiscal year adopted budget continues most services at current levels except when federal or state funding is decreased or when projects have been completed or are nearing completion.

Other Matters (continued)

Russell County
Management's Discussion and Analysis
June 30, 2006
(Continued)

- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for County programs. The Fiscal Court may decide to alter the operation or funding of County operations impacted by State revenue shortfall.

Requests for Information

This financial report is designed to provide a general overview of Russell County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Russell County Treasurer, P. O. Box 397, Jamestown, Kentucky 42629. Questions concerning the audit report of the Russell County Tourist Commission should be addressed to Russell County Tourist Commission, P.O. Box 64, Russell Springs, KY 42642.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Russell County
Statement of Net Assets - Modified Cash Basis

June 30, 2006

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Tourist Commission December 31, 2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 693,300	\$ 49,349
Due from Russell County Fiscal Court		1,000
	<u>693,300</u>	<u>50,349</u>
Total current assets	\$ 693,300	\$ 50,349
Non-current assets:		
Capital assets (net) -		
Land	\$ 497,500	\$ 30,240
Land improvements	199,254	
Buildings and improvements	1,033,521	119,996
Office furniture, machinery, and other equipment	467,769	17,313
Vehicles	147,692	
Infrastructure (net)	<u>2,297,205</u>	
	<u>4,642,941</u>	<u>167,549</u>
Total non-current assets	\$ 4,642,941	\$ 167,549
Total assets	\$ 5,336,241	\$ 217,898
Liabilities		
Current liabilities:		
Financing obligations and notes payable -		
Due within one year	\$ 80,260	\$ 13,872
Noncurrent liabilities:		
Financing obligations and notes payable -		
Due in more than one year	<u>100,900</u>	<u>78,504</u>
	<u>181,160</u>	<u>92,376</u>
Total liabilities	\$ 181,160	\$ 92,376
Net assets		
Invested in capital assets, net of related debt	\$ 4,461,781	\$ 75,173
Unrestricted	<u>693,300</u>	<u>50,349</u>
Total net assets	\$ 5,155,081	\$ 125,522

The accompanying notes are an integral part of the financial statements.

Russell County
Statement of Activities - Modified Cash Basis

For The Year Ended June 30, 2006

		Program Revenues Received		Net (Expenses) Revenues and Changes in Net Assets		Component Unit for the Year Ended December 31, 2005
				Primary Government		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contri- butions	Govern- mental Activities	Totals	
Tourist Commission						
Primary government						
Governmental activities:						
General government	\$ 1,826,421	\$ 8,138	\$ 1,213,730	\$ (604,553)	\$ (604,553)	\$
Protection to persons and property	613,501		127,042	(486,459)	(486,459)	
General health and sanitation	77,106	5,084		(72,022)	(72,022)	
Social services	66,031			(66,031)	(66,031)	
Recreation and culture	136,676			(136,676)	(136,676)	
Roads	488,190		1,248,020	759,830	759,830	
Airport	29,101	28,982		(119)	(119)	
Debt service	10,910			(10,910)	(10,910)	
Total governmental activities						
	\$ 3,247,936	\$ 42,204	\$ 2,588,792	\$ (616,940)	\$ (616,940)	
Total primary government						
	\$ 3,247,936	\$ 42,204	\$ 2,588,792	\$ (616,940)	\$ (616,940)	
Component unit						
Tourist Commission	\$ 127,274	\$ 365	\$ 142,179			15,270

Russell County
Statement of Activities - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	Net (Expenses) Revenues and Changes in Net Assets			Component Unit for the Year Ended December 31, 2005
	Primary Government			
	Govern- mental Activities	Totals		Tourist Commission
General revenues:				
Taxes:				
Real property taxes	\$ 323,029	\$ 323,029	\$	
Personal property taxes	96,455	96,455		
Motor vehicle taxes and licenses	95,135	95,135		
Occupational taxes	333,011	333,011		
Other taxes	542,347	542,347		
Excess fees	95,353	95,353		
Intergovernmental revenues	134	134		
Unrestricted investment earnings	7,104	7,104		
Miscellaneous revenues	287,222	287,222		
Total general revenues	\$ 1,779,790	\$ 1,779,790	\$	
Change in net assets	\$ 1,162,850	\$ 1,162,850	\$	15,270
Net assets - Beginning	3,992,231	3,992,231		110,252
Net assets - Ending	\$ 5,155,081	\$ 5,155,081	\$	125,522

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

Russell County
Balance Sheet - Governmental Funds - Modified Cash Basis

June 30, 2006

	General Fund	Road Fund	Jail Fund	Community Development Block Grant Fund	Airport Fund	Non-major Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 548,157	\$ 76,836	\$ 8,820	\$ 1	\$ 41,253	\$ 18,233	\$ 693,300
Total assets	<u>\$ 548,157</u>	<u>\$ 76,836</u>	<u>\$ 8,820</u>	<u>\$ 1</u>	<u>\$ 41,253</u>	<u>\$ 18,233</u>	<u>\$ 693,300</u>
Fund balances							
Reserved for:							
Encumbrances	\$ 5,999	\$ 7,939	\$ 5,128	\$	\$	\$	\$ 19,066
Unreserved:							
General fund	542,158						542,158
Special revenue funds		68,897	3,692	1	41,253	18,233	132,076
Total fund balances	<u>\$ 548,157</u>	<u>\$ 76,836</u>	<u>\$ 8,820</u>	<u>\$ 1</u>	<u>\$ 41,253</u>	<u>\$ 18,233</u>	<u>\$ 693,300</u>

**Reconciliation of the Fund Balances to Net Assets of
Governmental Activities:**

Total fund balances	\$ 693,300
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,314,655
Accumulated depreciation	(1,671,714)
Liabilities in governmental activities are not reported in the funds -	(80,260)
Current liabilities due within one year - financing obligations	
Non-current liabilities due in more than one year - financing obligations	(100,900)
Net assets of governmental activities	<u>\$ 5,155,081</u>

The accompanying notes are an integral part of the financial statements.

Russell County
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - Modified Cash Basis

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Community Development Block Grant Fund	Airport Fund	Non-major Funds	Total Governmental Funds
Revenues							
Taxes	\$ 1,154,215	\$	\$	\$	\$ 13,264	\$ 118,162	\$ 1,285,641
In lieu tax payments	117,600						117,600
Excess fees	95,353						95,353
Intergovernmental	232,811	1,566,405	104,459	555,917		8,560	2,468,152
Charges for services			1,870		15,003		16,873
Miscellaneous	303,219	47,121	4,088		61	64,920	419,409
Interest	4,191	2,696	98		654	119	7,758
Total revenues	\$ 1,907,389	\$ 1,616,222	\$ 110,515	\$ 555,917	\$ 28,982	\$ 191,761	\$ 4,410,786
Expenditures							
General government	\$ 586,135	\$	\$	\$	\$	\$	\$ 586,135
Protection to persons and property	66,815		553,430			4,171	624,416
General health and sanitation	125,747						125,747
Social services	1,240					64,791	66,031
Recreation and culture	20,627					116,049	136,676
Roads		1,524,179					1,524,179
Airport					29,101		29,101
Debt service	38,727	44,520				4,715	87,962
Administration	535,254	98,939	87,247	555,917			1,277,357
Total expenditures	\$ 1,374,545	\$ 1,667,638	\$ 640,677	\$ 555,917	\$ 29,101	\$ 189,726	\$ 4,457,604
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ 532,844	\$ (51,416)	\$ (530,162)	\$	\$ (119)	\$ 2,035	\$ (46,818)
Other financing sources (uses)							
Transfers from other funds	\$ 50,000	\$	\$ 536,868	\$ 50,000	9,000	243	\$ 646,111
Transfers to other funds	(589,637)			(50,000)		(6,474)	(646,111)
Total other financing sources (uses)	\$ (539,637)	\$	\$ 536,868	\$	\$ 9,000	\$ (6,231)	\$
Net change in fund balances	\$ (6,793)	\$ (51,416)	\$ 6,706	\$	\$ 8,881	\$ (4,196)	\$ (46,818)
Fund balances - Beginning	554,950	128,252	2,114	1	32,372	22,429	740,118
Fund balances - Ending	\$ 548,157	\$ 76,836	\$ 8,820	\$ 1	\$ 41,253	\$ 18,233	\$ 693,300

The accompanying notes are an integral part of the financial statements.

Russell County
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities - Modified Cash Basis

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net change in fund balances - Total governmental funds	\$ (46,818)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,306,748
Depreciation expense	(174,132)

Governmental funds report money borrowed as other financing sources and debt principal payments as expenditures. However, in the Statement of Activities, these transactions are excluded.

Borrowed money (principal) repaid	<u>77,052</u>
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Change in net assets of governmental activities	<u><u>\$ 1,162,850</u></u>
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**Russell County
Index for
Notes to the Financial Statements**

Note 1. Summary of Significant Accounting Policies.....	21 – 27
Note 2. Deposits	27
Note 3. Employee Retirement System.....	27 – 28
Note 4. Capital Assets	28 – 29
Note 5. Long-term Debt.....	30 – 34
Note 6. Interest on Long-term Debt.....	34
Note 7. Deferred Compensation.....	34
Note 8. Insurance	34

Russell County
Notes to the Financial Statements

For the Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements. The financial statements of the discretely presented component unit are prepared on the same basis of accounting used by Russell County.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure assets. However, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included in the Statement of Activities.

B. Reporting Entity

The financial statements of Russell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on the organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blended method.

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Russell County Airport Board

On November 5, 1986, the Supreme Court of Kentucky ruled that the Russell County Airport Board (Airport Board) was not a legally formed entity under KRS 183.132, and therefore, was subordinate to Russell County Fiscal Court (Fiscal Court). Hence, the Fiscal Court is financially accountable for the Airport Board, legally entitled to the Airport Board's resources, as well as legally obligated for the Airport Board's debt. Financial information for the Airport Board is blended within Russell County's financial statements.

Discretely Presented Component Unit

The following legally separate organization is reported in a separate column labeled 'Component Unit' on the Statement of Net Assets and the Statement of Activities to emphasize that this organization is separate from the fiscal court's primary government.

Russell County Tourist Commission

On December 12, 1981, the Russell County Fiscal Court established the Russell County Tourist Commission (Commission) pursuant to KRS 91A.350 (2) for the purpose of promoting the recreation, tourist, and convention activity in Russell County. The Commission is composed of seven members appointed by the Russell County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties and two members are appointed at-large by the County Judge/Executive. The Commission, whose governing body is substantially different from the Fiscal Court, is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. Furthermore, on December 12, 1981, the Fiscal Court enacted an ordinance imposing a transient room tax, which is the Commission's major source of revenue. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room or rooms charged and collected", which as required, is disbursed monthly to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court. Therefore, management has included this entity as a component unit, and the entity's financial activity for the year ended December 31, 2005 is discretely presented in the financial statements. A complete copy of the audit report may be obtained from the Commission.

C. Russell County Elected Officials

Kentucky law provides for election of officials from the geographic area constituting Russell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually, and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Russell County, Kentucky.

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Russell County Elected Officials (Continued)

Russell County has the following elected officials:

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff, and
- Property Valuation Administrator

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Russell County did not have any business-type activities during the fiscal year.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Community Development Block Grant Fund – This fund is to account for the grant moneys received for the County's Industrial Development Authority.

Airport Fund – The primary purpose of this fund is to account for the operation of the County's airport.

The primary government also has the following non-major funds: Tourism Fund, Local Government Economic Assistance Fund, Homeland Security Fund, and Grant Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Community Development Block Grant Fund, Airport Fund, Tourism Fund, Local Government Economic Assistance Fund, Homeland Security Fund, and Grant Fund are considered *special revenue funds*. Special revenue funds account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount on November 30, due at face value on December 31, delinquent on January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

Presentation of Component Unit

The financial statements present the Russell County Tourist Commission as a major discretely presented component unit. It is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize that the organization exists separate from the fiscal court's primary government.

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposit and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following including, but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land; land improvements; buildings and improvements; office furniture, machinery, and other equipment; vehicles; and infrastructure assets (roads and bridges) that have a useful life (based on the government's capitalization policy) of more than one reporting period, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

The County has adopted the following capitalization thresholds and useful lives:

	Capitalization Threshold	Useful Life Years
Infrastructure	\$ 20,000	10 – 60
Land improvements	12,500	10 – 75
Buildings and improvements	25,000	10 – 60
Vehicles	2,500	2 – 10
Machinery and equipment	2,500	10 – 25

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Russell County Airport Fund. The Governor's office for Local Development does not require a budget for this fund.

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria the following are considered related organizations of Russell County Fiscal Court: the Russell County Ambulance Service District and the Russell County Hospital.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the 911 Dispatch Consortium (Consortium) is considered a joint venture of Russell County Fiscal Court. The Consortium is composed of the Fiscal Court, the City of Jamestown, the City of Russell Springs, and the Russell County Emergency Medical Service District. Each member of the consortium accepts "responsibility equally for any and all operating expenses and emergency needs approved by the management team, and agrees to pay for such costs in equal proportion of one-fourth each."

Note 2. Deposits

The primary government and discretely presented component unit maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 64.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. To be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, which is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and the approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met for the County and for the discretely presented component unit.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's or the component unit's deposits may not be returned. The County or the component unit does not have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006 all deposits of the County were covered by FDIC insurance or a properly executed collateral security agreement. Also, as of December 31, 2005 all deposits of the discretely presented component unit were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Employee Retirement System

The County and the Russell County Tourist Commission, a component unit, have elected to participate in the County Employee Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 3. Employee Retirement System (Continued)

members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 4. Capital Assets

Capital asset activity for governmental activities of the primary government for the year ending June 30, 2006 was as follows:

Assets	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 497,500	\$	\$	\$ 497,500
Land improvements	195,539	12,652		208,191
Buildings and improvements	1,983,047			1,983,047
Office furniture, machinery, and other equipment	602,597	146,713		749,310
Vehicles	406,006	5,500		411,506
Infrastructure	1,323,218	1,141,883		2,465,101
Total capital assets	\$ 5,007,907	\$ 1,306,748	\$	\$ 6,314,655
Less: Accumulated depreciation	1,497,582	174,132		1,671,714
Governmental activities capital assets, net	\$ 3,510,325	\$ 1,132,616	\$	\$ 4,642,941

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity for the discretely presented component for the year ending December 31, 2005 was as follows:

Assets	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 30,240	\$	\$	\$ 30,240
Buildings and improvements	204,248			204,248
Equipment and furniture	47,238	13,600		60,838
Total capital assets	\$ 281,726	\$ 13,600	\$	\$ 295,326
Less: Accumulated depreciation	110,948	16,829		127,777
Governmental activities capital assets, net	\$ 170,778	\$ (3,229)	\$	\$ 167,549

Depreciation expense was charged to functions of the primary government as follows:

General government	\$ 57,840
Protections to persons and property	1,391
Roads	114,901
Total	\$ 174,132

Depreciation expense was charged by the discretely presented component unit as follows:

Russell County Tourist Commission	\$ 16,829
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Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 5. Long-term Debt

A. Financing Obligations – Primary Government

Road Paving

On May 12, 1998, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$400,000. The funds were used for a road-paving project. Interest is paid monthly at a 4.50% interest rate. Principal is paid annually on January 20 and the principal balance outstanding as of June 30, 2006 was \$69,000.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 2,756	\$ 46,000
2008	742	23,000
Total	\$ 3,498	\$ 69,000

Fire Truck

On April 26, 2001, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$75,000. The funds were used to purchase a fire truck. Principal and interest are paid monthly at a 4.25% interest rate. The principal balance outstanding as of June 30, 2006 was \$40,285.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 1,837	\$ 7,426
2008	1,468	7,799
2009	1,078	8,191
2010	668	8,603
2011	235	8,266
Total	\$ 5,286	\$ 40,285

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

A. Financing Obligations – Primary Government (Continued)

Sheriff Vehicles

On March 19, 2004, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$85,170. The funds were used to purchase sheriff vehicles. Interest is paid monthly at a 2.46% interest rate. Principal is paid annually on January 20 and the principal balance outstanding as of June 30, 2006 was \$35,315.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 910	\$ 17,443
2008	338	17,872
Total	\$ 1,248	\$ 35,315

Sheriff Vehicles

On May 20, 2004, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$6,524 to purchase a vehicle for the Sheriff. Principal and interest at a 4.25% interest rate are paid monthly. The principal balance outstanding as of June 30, 2006 was \$4,028.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 174	\$ 1,304
2008	108	1,342
2009	40	1,382
Total	\$ 322	\$ 4,028

Sheriff Vehicles

On March 11, 2005, Russell County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$42,190 to purchase a vehicle for the Sheriff. Principal and interest at a 4.25% interest rate are paid monthly. The principal balance outstanding as of June 30, 2006 was \$32,532.

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

A. Financing Obligations – Primary Government (Continued)

Sheriff Vehicles (Continued)

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 1,458	\$ 8,087
2008	1,045	8,502
2009	610	8,939
2010	158	7,004
Total	\$ <u>3,271</u>	\$ <u>32,532</u>

B. Changes in Long-term Debt – Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing obligations	\$ <u>258,212</u>	\$ <u> </u>	\$ <u>77,052</u>	\$ <u>181,160</u>	\$ <u>80,260</u>

C. Notes Payable – Component Unit

Note Payable – Bank of Jamestown

The Russell County Tourist Commission has a note payable to the Bank of Jamestown, payable in monthly installments of \$793, including interest at 6%, through August, 2011. The note, collateralized by commercial real estate, had a principal balance outstanding at December 31, 2005 of \$46,188. Future principal and interest requirements are:

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

C. Notes Payable – Component Unit (Continued)

<u>Year Ended December 31</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	2,582	\$	6,936
2007		2,154		7,364
2008		1,700		7,818
2009		1,218		8,300
2010		707		8,811
2011		85		6,959
Total	\$	8,446	\$	46,188

Note Payable – First National Bank

The Russell County Tourist Commission has a note payable to the First National Bank, payable in monthly installments of \$793, including interest at 6%, through August, 2011. The note, collateralized by commercial real estate, had a principal balance outstanding at December 31, 2005 of \$46,188. Future principal and interest requirements are:

<u>Year Ended December 31</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	2,582	\$	6,936
2007		2,154		7,364
2008		1,700		7,818
2009		1,218		8,300
2010		707		8,811
2011		86		6,959
Total	\$	8,447	\$	46,188

Russell County
Notes to the Financial Statements
For the Year Ended June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes in Long-term Debt – Component Unit

		Beginning Balance January 1, 2005		Additions		Reductions		Ending Balance December 31, 2004		Due Within One Year
Notes Payable	\$	105,438	\$		\$	13,062	\$	92,376	\$	13,872

Note 6. Interest on Long-term Debt

Debt service on the Statement of Activities includes \$10,910 in interest on financing obligations.

Note 7. Deferred Compensation

All eligible employees can participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or the occurrence of an unforeseeable emergency. Participation of employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2006, Russell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for the payment of the excess losses.

REQUIRED SUPPLEMENTARY INFORMATION

Russell County
Budgetary Comparison Schedules - Major Funds - Modified Cash Basis
Required Supplementary Information

For The Year Ended June 30, 2006

	General Fund			
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 1,010,632	\$ 1,088,029	\$ 1,154,215	\$ 66,186
In lieu tax payments	62,500	62,912	117,600	54,688
Excess fees	29,080	93,485	95,353	1,868
Intergovernmental	169,125	238,903	232,811	(6,092)
Miscellaneous	148,493	292,288	303,219	10,931
Interest	3,189	3,587	4,191	604
Total revenues	\$ 1,423,019	\$ 1,779,204	\$ 1,907,389	\$ 128,185
Expenditures				
General government	\$ 514,485	\$ 514,485	\$ 586,135	\$ (71,650)
Protection to persons and property	64,950	64,950	66,815	(1,865)
General health and sanitation	70,410	70,410	125,747	(55,337)
Social services			1,240	(1,240)
Recreation and culture	10,000	10,000	20,627	(10,627)
Airport	4,000	4,000		4,000
Debt service			38,727	(38,727)
Administration	368,339	1,235,430	535,254	700,176
Total expenditures	\$ 1,032,184	\$ 1,899,275	\$ 1,374,545	\$ 524,730
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ 390,835	\$ (120,071)	\$ 532,844	\$ 652,915
Other financing sources (uses):				
Transfers from other funds	\$ 114,305	\$ 114,305	\$ 50,000	\$ (64,305)
Transfers to other funds	(505,140)	(505,140)	(589,637)	(84,497)
Total other financing sources (uses)	\$ (390,835)	\$ (390,835)	\$ (539,637)	\$ (148,802)

Russell County
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis
 Required Supplementary Information
 For The Year Ended June 30, 2006
 (Continued)

General Fund (Continued)				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
Net change in fund balance	\$	\$ (510,906)	\$ (6,793)	\$ 504,113
Fund balance - Beginning		510,906	554,950	44,044
Fund balance - Ending	\$	\$	\$ 548,157	\$ 548,157

Road Fund				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
Revenues				
Intergovernmental	\$ 950,700	\$ 1,566,404	\$ 1,566,405	\$ 1
Miscellaneous	300	46,995	47,121	126
Interest	3,421	3,421	2,696	(725)
Total revenues	\$ 954,421	\$ 1,616,820	\$ 1,616,222	\$ (598)
Expenditures				
Roads	\$ 698,095	\$ 1,488,746	\$ 1,524,179	\$ (35,433)
Debt service	45,000	45,000	44,520	480
Administration	97,021	97,021	98,939	(1,918)
Total expenditures	\$ 840,116	\$ 1,630,767	\$ 1,667,638	\$ (36,871)
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ 114,305	\$ (13,947)	\$ (51,416)	\$ (37,469)
Other financing sources (uses):				
Transfers to other funds	\$ (114,305)	\$ (114,305)		\$ 114,305

Russell County
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis
 Required Supplementary Information
 For The Year Ended June 30, 2006
 (Continued)

Road Fund (Continued)				
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	with Final Budget Positive (Negative)
Total other financing sources (uses)	\$ (114,305)	\$ (114,305)	\$	\$ 114,305
Net change in fund balance	\$	\$ (128,252)	\$ (51,416)	\$ 76,836
Fund balance - Beginning		128,252	128,252	
Fund balance - Ending	\$	\$	\$ 76,836	\$ 76,836

Jail Fund				
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	with Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 65,050	\$ 81,324	\$ 104,459	\$ 23,135
Charges for services	7,000	7,000	1,870	(5,130)
Miscellaneous	7,000	7,000	4,088	(2,912)
Interest	200	200	98	(102)
Total revenues	\$ 79,250	\$ 95,524	\$ 110,515	\$ 14,991
Expenditures				
Protection to persons and property	\$ 497,897	\$ 516,285	\$ 553,430	\$ (37,145)
Administration	86,493	86,493	87,247	(754)
Total expenditures	\$ 584,390	\$ 602,778	\$ 640,677	\$ (37,899)
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ (505,140)	\$ (507,254)	\$ (530,162)	\$ (22,908)
Other financing sources (uses):				
Transfers from other funds	\$ 505,140	\$ 505,140	\$ 536,868	\$ 31,728

Russell County
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis
 Required Supplementary Information
 For The Year Ended June 30, 2006
 (Continued)

Jail Fund (Continued)				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive Negative
	Original	Final		
Total other financing sources (uses)	\$ 505,140	\$ 505,140	\$ 536,868	\$ 31,728
Net change in fund balance	\$	\$ (2,114)	\$ 6,706	\$ 8,820
Fund balance - Beginning		2,114	2,114	
Fund balance - Ending	\$	\$	\$ 8,820	\$ 8,820

Community Development Block Grant Fund				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
Revenues				
Intergovernmental	\$ 1,300,000	\$ 1,300,000	\$ 555,917	\$ (744,083)
Total revenues	\$ 1,300,000	\$ 1,300,000	\$ 555,917	\$ (744,083)
Expenditures				
Administration	\$ 1,300,000	\$ 1,300,001	\$ 555,917	\$ 744,084
Total expenditures	\$ 1,300,000	\$ 1,300,001	\$ 555,917	\$ 744,084
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$	\$ (1)	\$	\$
Other financing sources (uses):				
Transfers from other funds	\$	\$	\$ 50,000	\$ 50,000
Transfers to other funds			(50,000)	(50,000)

Russell County
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis
 Required Supplementary Information
 For The Year Ended June 30, 2006
 (Continued)

Community Development Block Grant Fund (Continued)				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Total other financing sources (uses)	\$ _____	\$ _____	\$ _____	\$ _____
Net change in fund balance	\$ _____	\$ (1)	\$ _____	\$ 1
Fund balance - Beginning	_____	1	1	_____
Fund balance - Ending	\$ _____	\$ _____	\$ 1	\$ 1

Russell County
Notes to the Required Supplementary Information

For the Year Ended June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The State Local Finance Officer does not require the Russell County Airport Fund to be budgeted.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. However, the expenditures of the Road Fund and the Jail Fund exceeded the budgeted appropriations by \$36,871 and \$37,899, respectively.

OTHER SUPPLEMENTARY INFORMATION

Russell County
Combining Balance Sheet - Non-major Governmental Funds - Modified Cash Basis
Other Supplementary Information

June 30, 2006

Special Revenue Funds				
Local				
	Tourism Fund	Government Economic Assistance Fund	Grant Fund	Total Non- major Funds
Assets				
Cash and cash equivalents	\$ 10,891	\$ 7,213	\$ 129	\$ 18,233
Total assets	<u>\$ 10,891</u>	<u>\$ 7,213</u>	<u>\$ 129</u>	<u>\$ 18,233</u>
Fund Balances				
Unreserved:				
Special revenue funds	\$ 10,891	\$ 7,213	\$ 129	\$ 18,233
Total fund balances	<u>\$ 10,891</u>	<u>\$ 7,213</u>	<u>\$ 129</u>	<u>\$ 18,233</u>

Russell County
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Non-major Governmental Funds - Modified Cash Basis
Other Supplementary Information

For The Year Ended June 30, 2006

	Special Revenue Funds				
	Tourism Fund	Local Government Economic Assistance Fund	Homeland Security Fund	Grant Fund	Total Non-major Funds
Revenues					
Taxes	\$ 118,162	\$	\$	\$	\$ 118,162
Intergovernmental		4,754	3,806		8,560
Miscellaneous				64,920	64,920
Interest	50	69			119
Total revenues	\$ 118,212	\$ 4,823	\$ 3,806	\$ 64,920	\$ 191,761
Expenditures					
Protection to persons and property	\$	\$	\$ 4,171	\$	\$ 4,171
Social services				64,791	64,791
Recreation and culture	116,049				116,049
Debt service		4,715			4,715
Total expenditures	\$ 116,049	\$ 4,715	\$ 4,171	\$ 64,791	\$ 189,726
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ 2,163	\$ 108	\$ (365)	\$ 129	\$ 2,035
Other financing sources (uses)					
Transfers from other funds	\$	\$	\$ 243	\$	\$ 243
Transfers to other funds		(6,474)			(6,474)
Total other financing sources (uses)	\$	\$ (6,474)	\$ 243	\$	\$ (6,231)
Net change in fund balances	\$ 2,163	\$ (6,366)	\$ (122)	\$ 129	\$ (4,196)
Fund balances - Beginning	8,728	13,579	122		22,429
Fund balances - Ending	\$ 10,891	\$ 7,213	\$	\$ 129	\$ 18,233

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Russell County
Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky.
2. No reportable conditions are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with Government Auditing Standards.
3. Two instances of noncompliance material to the financial statements of Russell County Fiscal Court were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Russell County Fiscal Court expresses an unqualified opinion on the major federal program.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was the Community Development Block Grant.(CFDA No.14.228)
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Russell County Fiscal Court was determined not to be a low-risk auditee.

Russell County
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)

B. Findings – Financial Statement Audit

State Laws and Regulations

2006 – 1 The County Budget For All Road Fund Expenditures.

According to KRS 68.300, expenditures should not exceed the amounts budgeted. As of June 30, 2006, Road Fund expenditures exceeded the amounts budgeted by \$36,871.

Response: We will work on correcting this.

2006 – 2 The County Budget For All Jail Fund Expenditures.

According to KRS 68.300, expenditures should not exceed the amounts budgeted. As of June 30, 2006, Jail Fund expenditures exceeded the amounts budgeted by \$37,899.

Response: We will work on correcting this.

Reportable Conditions

None.

C. Findings and Questioned Costs – Major Federal Awards Program Audit

None.

D. Prior Year Findings

Not applicable.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Russell County
Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through State Department of Military Affairs			
Emergency Management Performance	97.042	Not available	\$ 2,500
Governor's Office of Homeland Security	97.004	Not available	222
Passed through Division of Emergency Management Public Assistance Office			
FEMA - Disaster Grant	97.036	Not available	<u>118,545</u>
Subtotal U.S. Department of Homeland Security			\$ <u>121,267</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Kentucky Governor's Office for Local Government			
Sub recipient of Community Development Block Grant (CDBG)			
Russell County Bruss Expansion Project	14.228	04-027	\$ <u>555,917</u>
Subtotal U.S. Department of Housing and Urban Development			\$ <u>555,917</u>
<u>National Oceanic and Atmospheric Administration</u>			
Passed through NOAA			
PRIDE	11.469	Not available	\$ <u>19,106</u>
Subtotal National Oceanic and Atmospheric Administration			\$ <u>19,106</u>
Total Federal Awards			\$ <u><u>696,290</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards

Russell County
Note to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Russell County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

JONES

**&
RITCHIE, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 □ (859) 269-1949

Honorable Ronnie E. McFall, Former Russell County Judge/Executive
Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards**

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated April 29, 2008. Russell County prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We did not audit the financial statements of the Russell County Tourist Commission, a discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Russell County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Ronnie E. McFall, Former Russell County Judge/Executive
Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court
Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of the Financial Statements Performed
in Accordance with Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as follows:

2006 – 1 The County Budget For All Road Fund Expenditures.

2006 – 2 The County Budget For All Jail Fund Expenditures.

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC
Certified Public Accountants

April 29, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

JONES

**&
RITCHIE, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 □ (859) 269-1949

Honorable Ronnie E. McFall, Former Russell County Judge/Executive
Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of Russell County, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. Russell County's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Russell County's management. Our responsibility is to express an opinion on Russell County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Russell County's compliance with those requirements.

In our opinion, Russell County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Honorable Ronnie E. McFall, Former Russell County Judge/Executive
Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court
Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control over Compliance in Accordance with OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Russell County is responsible for establishing and maintaining effective internal control over compliance with the requirements of the laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Russell County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC

April 29, 2008

APPENDIX A

**CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
RUSSELL COUNTY, KENTUCKY**

For The Fiscal Year Ended June 30, 2006

The Russell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


County Judge/Executive


County Treasurer